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TAXATION STUDIES | RESEARCH ARTICLE

Taxes and Entrepreneurship: Impact on New Business Creation

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Abstract: This study investigates the intricate relationship between tax policies and entrepreneurship, aiming to provide comprehensive insights into how taxes influence entrepreneurial behavior and outcomes. Adopting a qualitative approach, the research synthesizes existing literature on taxes and entrepreneurship, drawing on a diverse range of scholarly articles, books, and reports. The research methodology involves systematic literature search, data extraction, thematic analysis, and critical appraisal of findings. The study finds that tax rates significantly impact entrepreneurial activity, with higher tax rates generally associated with lower rates of new business creation. Moreover, complex tax systems and compliance costs pose barriers to entry for aspiring entrepreneurs, diverting resources away from productive activities. However, the impact of taxes on entrepreneurship extends beyond mere rate considerations, encompassing factors such as tax incentives, institutional frameworks, and socio-economic conditions. Tax policies that offer targeted incentives for startup investment, research and development (R&D), and small business development can mitigate the negative effects of high tax rates and promote entrepreneurial activity. Furthermore, favorable business climates, streamlined regulatory processes, and transparent tax administration contribute to an enabling environment for startups to thrive and innovate. The study highlights the need for policymakers to adopt a holistic approach to tax policy design that balances revenue objectives with entrepreneurship promotion.

Keywords: Taxes, Entrepreneurship, Tax Policy, Business Formation, Economic Growth.

1. INTRODUCTION

In contemporary economies, the interplay between taxation policies and entrepreneurship has garnered significant attention from policymakers, researchers, and practitioners alike. Understanding how taxes influence the formation and sustainability of new businesses is crucial for fostering economic growth, innovation, and job creation. This introduction provides a comprehensive overview of the relationship between taxes and entrepreneurship, delving into general explanations, specific elucidations, observed phenomena, relevant research, and the objective of conducting quantitative descriptive research based on previous findings. Taxation stands as one of the fundamental mechanisms through which governments finance public expenditure and regulate economic activities. Entrepreneurs, as key agents of economic dynamism, are inevitably subject to various forms of taxation, including income tax, corporate tax, value-added tax, and payroll tax, among others. The impact of these taxes on entrepreneurial activities has been a subject of extensive debate and empirical investigation.

In the context of entrepreneurship, taxes can influence various aspects of business formation, operation, and growth. Higher tax rates may deter individuals from engaging in entrepreneurial endeavors due to increased costs and reduced financial incentives. Moreover, complex tax systems and compliance requirements can impose administrative burdens on small businesses, diverting resources away from productive activities towards tax planning and compliance efforts. Furthermore, the structure and design of tax policies can have differential effects on different types of entrepreneurial activities. For instance, progressive income tax systems may disincentivize high-income entrepreneurs,

while favorable tax treatment for capital gains may incentivize investment-oriented entrepreneurship. Additionally, tax incentives and deductions targeted at specific industries or activities can shape entrepreneurial behavior and the allocation of resources within the economy.

Empirical evidence regarding the relationship between taxes and entrepreneurship has yielded mixed findings, reflecting the complexity and heterogeneity of entrepreneurial ecosystems across different contexts. Some studies suggest that lower tax rates are associated with higher rates of business formation and entrepreneurial activity, citing the positive effects of tax cuts on disposable income, investment incentives, and risk-taking behavior. Conversely, other research highlights the limited impact of tax policies on entrepreneurial decisions, emphasizing the importance of non-tax factors such as access to finance, market conditions, regulatory environment, and socio-cultural factors. Moreover, the relationship between taxes and entrepreneurship may exhibit nonlinear dynamics, with optimal tax levels varying depending on contextual factors and the stage of economic development.

The existing body of research on taxes and entrepreneurship provides valuable insights into the mechanisms through which tax policies influence entrepreneurial behavior and outcomes. However, gaps in knowledge persist, particularly regarding the specific channels through which taxes affect different stages of the entrepreneurial process, from venture creation to growth and exit. Quantitative descriptive research offers an opportunity to address these gaps by systematically analyzing the relationships between tax variables and entrepreneurial outcomes using rigorous empirical methods. By employing descriptive statistics, regression analysis, and econometric modeling techniques, researchers can elucidate the nuanced effects of taxes on new business creation, survival rates, innovation, and employment generation. Research on the impact of taxes on entrepreneurship reveals mixed findings. Venâncio (2020) and Berger (2016) both find a positive effect, with the former showing that a reduction in corporate taxes in Portugal led to increased firm entry and job creation, and the latter finding that profit taxes in Germany influenced new firm creation to a small extent. However, Balamoune-Lutz (2014, 2011) present a contrasting view, suggesting that higher tax progressivity can discourage nascent entrepreneurship. These studies highlight the complex relationship between taxes and entrepreneurship, with the need for further research to fully understand the dynamics at play.

The objective of this study is to provide a comprehensive analysis of the impact of taxes on new business creation, with a focus on descriptive quantitative research methods. Drawing on insights from previous literature, the research aims to identify the key tax variables that influence entrepreneurial decisions and outcomes across different contexts. By examining tax policy instruments, tax rates, tax administration, and compliance costs, the study seeks to inform policymakers, practitioners, and stakeholders about the implications of taxation for fostering entrepreneurship and economic development. The intersection of taxes and entrepreneurship constitutes a multifaceted domain that requires interdisciplinary inquiry and empirical investigation. Through quantitative descriptive research, this study aims to contribute to the existing knowledge base and inform evidence-based policymaking aimed at promoting entrepreneurial activity, innovation, and economic growth.

2. LITERATURE REVIEW

The nexus between taxes and entrepreneurship has been a subject of extensive inquiry within the realms of economics, finance, and public policy. Understanding how tax policies influence entrepreneurial behavior and outcomes is essential for crafting effective policy interventions aimed at fostering innovation, economic growth, and job creation. This literature review provides a comprehensive overview of the existing body of research related to taxes and entrepreneurship, encompassing definitions, theoretical frameworks, empirical findings, and areas of ongoing debate.

2.1. Definitions and Conceptual Frameworks

Entrepreneurship, as delineated by Shane and Venkataraman (2000), constitutes a multifaceted process intertwined with the institutional fabric of its operating environment. Over the years, scholars have delved deeper into the intricacies of entrepreneurial dynamics, shedding light on the evolving role of taxation in shaping entrepreneurial behavior and outcomes. Recent research has underscored the

pivotal role of tax policies in influencing entrepreneurial decisions across various stages of the entrepreneurial lifecycle, thereby adding nuance to our understanding of this complex relationship. Contemporary studies highlight the heterogeneous effects of different tax instruments on entrepreneurial activities. For instance, income taxes, which directly impact the financial rewards accruing to entrepreneurs, exhibit varied effects depending on factors such as tax progressivity and tax enforcement mechanisms (Fossen & Steiner, 2020). Moreover, corporate taxes, through their influence on the cost of doing business and investment incentives, shape the landscape for entrepreneurial ventures, especially for startups and small businesses (García-Posada & Mora-Sanguinetti, 2021).

The advent of digital entrepreneurship has further blurred the lines between traditional business models and innovative ventures, posing new challenges and opportunities for tax policy design (Cerulus, 2021). Digital platforms and online marketplaces have enabled individuals to engage in entrepreneurial activities with minimal barriers to entry, prompting policymakers to revisit tax regulations to ensure fairness, compliance, and revenue adequacy (De Mooij & Ederveen, 2020). Additionally, the global landscape of entrepreneurship has witnessed the emergence of new paradigms such as social entrepreneurship and sustainable business models, which prioritize societal impact alongside financial returns (Mair & Martí, 2006). Tax policies play a crucial role in incentivizing and supporting these endeavors, with governments offering tax incentives, grants, and subsidies to promote social innovation and environmental sustainability (Smith, 2019).

Furthermore, the COVID-19 pandemic has underscored the resilience and adaptability of entrepreneurial ecosystems in the face of adversity (Block et al., 2021). Tax relief measures, including temporary tax cuts, deferrals, and exemptions, have been implemented worldwide to alleviate the financial burden on businesses and stimulate economic recovery (Cordella & Gupta, 2020). The effectiveness of these fiscal interventions in sustaining entrepreneurial activity amidst economic turbulence remains a subject of ongoing scrutiny and debate (Ballester & Smith, C. A. (2019). Tax incentives for social innovation: Lessons from the United States and Canada. *Public Administration Review*, 79(1), 68-79. The interplay between taxation and entrepreneurship continues to evolve in response to technological advancements, societal shifts, and global economic trends. Recent research underscores the need for dynamic tax policies that can adapt to these changing dynamics while fostering entrepreneurial activity and innovation.

One area of growing interest is the role of taxation in promoting environmental sustainability and green entrepreneurship (Murray et al., 2020). As concerns about climate change and resource depletion mount, policymakers are exploring tax incentives, carbon pricing mechanisms, and green investment subsidies to incentivize environmentally-friendly business practices and technologies (Hepburn et al., 2020). Moreover, the rise of platform-based business models and the gig economy has raised questions about the adequacy of existing tax frameworks in capturing income generated from digital transactions (Rogers & Wu, 2017). The decentralized nature of digital platforms presents challenges for tax authorities in enforcing compliance and ensuring tax equity, prompting calls for international cooperation and regulatory harmonization (OECD, 2019).

Furthermore, the COVID-19 pandemic has highlighted the importance of agility and resilience in tax policy design. Temporary tax relief measures, such as payroll tax holidays and value-added tax (VAT) exemptions, have provided much-needed support to struggling businesses during lockdowns and economic downturns (Oberhofer et al., 2021). However, the long-term implications of these fiscal interventions on public finances and economic recovery remain uncertain (Zucman, 2020). The relationship between taxation and entrepreneurship is dynamic and multifaceted, reflecting the evolving nature of economic activity and regulatory frameworks. By integrating insights from recent research and leveraging innovative policy instruments, policymakers can create an enabling environment for entrepreneurial endeavors to thrive while addressing pressing societal challenges.

2.2. Theoretical Perspectives

Theoretical perspectives on the relationship between taxes and entrepreneurship have evolved over time, incorporating insights from recent research to provide a more nuanced understanding of how tax policies shape entrepreneurial behavior and outcomes. The traditional view, grounded in neoclassical

economics, posits that taxes distort economic behavior by altering relative prices and incentives. According to Mankiw, Weinzierl, and Yagan (2009), higher tax rates reduce the after-tax returns to entrepreneurial activity, leading to a decline in entrepreneurial effort, innovation, and risk-taking. This perspective highlights the importance of tax incentives in influencing entrepreneurial decisions and resource allocation within the economy. However, behavioral economics offers a different lens through which to examine the effects of taxes on entrepreneurship. Drawing on insights from psychology and cognitive science, behavioral economists emphasize the role of psychological factors in shaping individual decision-making under uncertainty (Kahneman & Tversky, 1979). From this standpoint, taxes may exert non-linear effects on entrepreneurial behavior, with individuals exhibiting varying degrees of sensitivity to changes in tax rates depending on their risk preferences, cognitive biases, and framing effects (Frey & Eichenberger, 1991).

Recent research has provided empirical support for the behavioral perspective on taxes and entrepreneurship. For example, studies have found that individuals' perceptions of tax fairness and tax morale significantly influence their willingness to engage in entrepreneurial activities (Alm & Torgler, 2011). Moreover, experimental evidence suggests that framing tax incentives in terms of potential gains rather than losses can enhance their effectiveness in stimulating entrepreneurial behavior (Moro & Fink, 2013). Furthermore, advances in neuroeconomics have shed light on the neural mechanisms underlying decision-making processes related to taxation and entrepreneurship. Neuroimaging studies have identified brain regions associated with risk assessment, reward processing, and social preferences, offering insights into how individuals' neural responses to tax incentives may influence their entrepreneurial decisions (Smith & Schreiber, 2018). The integration of theoretical perspectives from neoclassical economics, behavioral economics, and neuroeconomics provides a holistic framework for understanding the complex interplay between taxes and entrepreneurship. By combining insights from multiple disciplines, researchers can gain deeper insights into the psychological, cognitive, and neural mechanisms underlying entrepreneurial decision-making in the context of taxation.

2.3. Empirical Evidence

Empirical research on the relationship between taxes and entrepreneurship continues to be a vibrant area of inquiry, with recent studies offering insights into the nuanced dynamics at play within entrepreneurial ecosystems. Recent findings corroborate the notion that tax rates can have a significant impact on entrepreneurial activity. For example, a study by Agarwal et al. (2020) found that higher personal income tax rates are associated with lower rates of self-employment, particularly among high-income individuals. Similarly, research by Cullen et al. (2019) suggests that reductions in corporate tax rates can lead to an increase in entrepreneurial activity, as firms allocate more resources towards investment and innovation. However, the relationship between taxes and entrepreneurship is not solely determined by tax rates. Recent research has highlighted the importance of other contextual factors in shaping entrepreneurial behavior. For instance, a study by Feld et al. (2021) found that the availability of tax incentives and support programs can mitigate the negative effects of high tax rates on entrepreneurial activity. Moreover, institutional factors such as the ease of doing business, rule of law, and property rights protection play a crucial role in mediating the impact of taxes on entrepreneurship (Aidis et al., 2020).

Furthermore, the emergence of digital entrepreneurship has introduced new complexities into the tax-entrepreneurship nexus. Recent studies have examined the implications of digitalization for tax policy and enforcement, highlighting the challenges posed by cross-border transactions, platform-based business models, and digital nomadism (Richter et al., 2021). Policymakers are increasingly grappling with issues such as the taxation of digital goods and services, the sharing economy, and the gig economy, as traditional tax frameworks struggle to keep pace with technological advancements (OECD, 2021). Recent research on taxes and entrepreneurship underscores the multifaceted nature of the relationship between tax policies and entrepreneurial behavior. By considering a broader array of contextual factors and incorporating insights from digital entrepreneurship, policymakers can design tax policies that foster innovation, economic growth, and job creation in an increasingly dynamic and interconnected world.

2.4. Areas of Debate and Future Research

Despite significant progress in understanding the interplay between taxes and entrepreneurship, there are still several unresolved issues and areas for future research that warrant attention. Recent studies have shed light on these complexities and provided insights into potential directions for further investigation.

Firstly, the optimal design of tax policies to stimulate entrepreneurial activity while maintaining revenue adequacy and equity remains a contentious issue. While reducing tax rates may incentivize entrepreneurship, policymakers must balance these incentives with the need for sufficient tax revenue to fund public goods and services (Keen & Konrad, 2019). Moreover, ensuring that tax policies are equitable and do not disproportionately burden certain segments of the population or types of businesses is essential for fostering inclusive growth (Piketty, 2014). Secondly, the differential effects of various tax incentives, deductions, and exemptions on different types of entrepreneurial activities require deeper exploration. Recent research suggests that targeted tax incentives for specific industries or activities can have varying impacts on entrepreneurship, depending on factors such as industry dynamics, technological trends, and market conditions (Li et al., 2020). Understanding which types of tax incentives are most effective in promoting innovation, job creation, and economic growth is crucial for designing tailored policy interventions. Thirdly, the role of tax compliance costs, administrative burdens, and tax planning strategies in shaping entrepreneurial decisions necessitates more nuanced analysis. Recent studies have highlighted the challenges faced by entrepreneurs in navigating complex tax regulations, filing requirements, and reporting obligations (Alstadsæter et al., 2018). Moreover, the prevalence of tax avoidance and evasion strategies among entrepreneurs underscores the need for effective enforcement mechanisms and compliance measures (Slemrod & Yitzhaki, 2002).

Furthermore, the advent of digital entrepreneurship and the gig economy has introduced new complexities into the tax-entrepreneurship nexus. Recent research has examined the implications of digitalization for tax policy and administration, highlighting the challenges posed by online platforms, remote work arrangements, and cross-border transactions (Zucman & Torslov, 2021). Policymakers must grapple with issues such as the taxation of digital goods and services, the classification of workers in the gig economy, and the enforcement of tax laws in a digitalized world. Despite significant advancements in understanding the relationship between taxes and entrepreneurship, there are still many unanswered questions and areas for future research. By integrating insights from recent studies and addressing these unresolved issues, researchers and policymakers can develop more effective tax policies that foster entrepreneurship, innovation, and economic development.

3. RESEARCH METHOD AND MATERIALS

The research methodology employed in this study adopts a qualitative approach to explore the relationship between taxes and entrepreneurship, drawing on a comprehensive review of existing literature. Qualitative research methods are particularly well-suited for investigating complex phenomena, such as the interplay between institutional factors, individual decision-making processes, and socio-economic dynamics. Through an in-depth analysis of scholarly articles, books, reports, and other relevant sources, this study aims to provide rich insights into the multifaceted nature of the tax-entrepreneurship nexus.

3.1. Literature Search and Selection

The research process begins with a systematic literature search across academic databases, including PubMed, Scopus, Web of Science, and Google Scholar. Keywords and search terms related to taxes, entrepreneurship, tax policy, business formation, innovation, and related concepts are utilized to identify relevant studies published in peer-reviewed journals and other scholarly outlets. Additionally, citation chaining and reference list scanning techniques are employed to ensure the comprehensiveness of the literature review. The inclusion criteria for selecting literature encompass studies published within the past two decades, focusing on empirical research, theoretical frameworks, conceptual

analyses, and policy discussions related to taxes and entrepreneurship. Both quantitative and qualitative studies are considered, with a preference for articles that offer nuanced insights, theoretical contributions, or methodological innovations. Moreover, seminal works by renowned scholars in the field are included to provide foundational knowledge and theoretical frameworks for the study.

3.2. *Data Extraction and Synthesis*

Upon identifying relevant literature, data extraction is conducted to systematically organize and categorize key findings, theoretical perspectives, methodological approaches, and empirical evidence. This process involves creating a structured database or coding scheme to capture relevant information from each source, including author(s), publication year, research objectives, methodology, main findings, and theoretical implications. The synthesized data are then analyzed thematically to identify recurrent themes, patterns, discrepancies, and areas of consensus within the literature. Through a process of constant comparison and iterative reflection, the researcher seeks to develop a nuanced understanding of the complexities and nuances inherent in the relationship between taxes and entrepreneurship. Additionally, theoretical frameworks and conceptual models derived from the literature are critically evaluated and refined to guide further analysis and interpretation.

3.3. *Critical Appraisal and Reflexivity*

Throughout the research process, critical appraisal and reflexivity are paramount to ensure the rigor, validity, and reliability of the study findings. The researcher engages in reflective practices to acknowledge and mitigate potential biases, assumptions, and limitations inherent in the research process. Moreover, methodological triangulation and peer debriefing are employed to enhance the trustworthiness and credibility of the study. Furthermore, the researcher adopts a reflexive stance by acknowledging their own positionality, disciplinary background, and preconceptions, which may shape their interpretation of the literature. Reflexivity involves constant self-awareness and introspection, allowing the researcher to critically examine their own biases and perspectives, and to remain open to alternative viewpoints and interpretations.

4. RESULTS AND DISCUSSION

The exploration of literature on taxes and entrepreneurship provides valuable insights into the intricate relationship between tax policies and new business creation. By synthesizing existing research findings, a multifaceted understanding emerges regarding the diverse dynamics that shape entrepreneurial behavior, startup formation, and innovation within the realm of taxation. One prominent aspect illuminated by the literature is the profound impact of tax rates on entrepreneurial activity. Djankov et al. (2010) emphasize the negative correlation between higher tax rates and the propensity for individuals to embark on new ventures. The burden of corporate taxes and personal income taxes reduces the net returns to entrepreneurship, thereby diminishing the incentives for potential entrepreneurs. This phenomenon is particularly evident among high-tax jurisdictions, where individuals may opt for alternative employment opportunities rather than bearing the heavy tax liabilities associated with entrepreneurship. Consequently, higher tax rates create disincentives for risk-taking and innovation, hindering the emergence of new businesses and stifling economic dynamism.

Moreover, the complexity of tax systems and the associated compliance costs pose significant barriers to entry for aspiring entrepreneurs. Fossen and Steiner (2006) highlight the challenges faced by individuals navigating intricate tax regulations and reporting requirements. The bureaucratic burden imposed by tax authorities consumes valuable time and resources, diverting attention away from core business activities and innovation pursuits. As a result, potential entrepreneurs may be deterred from entering the market or may opt for informal sector activities to circumvent the complexities of formal tax compliance. This phenomenon not only undermines tax revenue collection but also limits the growth potential of legitimate entrepreneurial ventures.

However, the impact of tax policies on entrepreneurship extends beyond mere rate considerations, encompassing a multitude of contextual factors and individual perceptions. Blanchflower (2004) argues that the quality of entrepreneurship, rather than its quantity, is a more pertinent measure of economic vitality. Tax policies that promote entrepreneurship quality, such as targeted incentives for innovation and skills development, can foster sustainable business growth and long-term competitiveness. Additionally, the availability of supportive institutional frameworks, access to finance, and conducive regulatory environments play pivotal roles in shaping the entrepreneurial landscape.

Furthermore, the discourse on taxes and entrepreneurship transcends traditional economic perspectives, incorporating insights from behavioral economics, sociology, and public policy analysis. Behavioral economists highlight the role of psychological biases and decision-making heuristics in shaping entrepreneurial choices under conditions of uncertainty (Kahneman & Tversky, 1979). Prospect theory suggests that individuals may exhibit risk aversion in the face of uncertain tax environments, leading to suboptimal entrepreneurial outcomes. Thus, tax policies that mitigate perceived risks and provide clarity and stability can enhance entrepreneurial confidence and promote venture creation.

Sociological perspectives offer additional nuances to the understanding of taxes and entrepreneurship, emphasizing the social embeddedness of entrepreneurial endeavors. Aidis et al. (2020) underscore the importance of social networks, cultural norms, and community support in facilitating entrepreneurial activity. Tax policies that recognize and leverage social capital can catalyze entrepreneurial ecosystems, fostering collaboration, knowledge exchange, and resource mobilization among aspiring entrepreneurs. By nurturing vibrant entrepreneurial communities, policymakers can cultivate a fertile ground for innovation and economic growth. The literature on taxes and entrepreneurship reflects a rich tapestry of insights from diverse disciplinary perspectives. While tax rates exert a significant influence on entrepreneurial decision-making, the impact of tax policies is contingent upon a myriad of contextual factors, institutional frameworks, and individual perceptions. By adopting a multidimensional approach to tax policy design and entrepreneurship promotion, policymakers can create an enabling environment conducive to new business creation, innovation, and economic prosperity.

The relationship between taxes and entrepreneurship transcends simplistic notions solely focused on tax rates, as the literature underscores the multifaceted interplay of various contextual factors. While tax rates undoubtedly play a significant role in shaping entrepreneurial decisions, other aspects of tax policy, incentives, and the broader regulatory environment exert considerable influence on entrepreneurial behavior and new business creation. Blanchflower (2004) emphasizes the importance of targeted tax incentives in mitigating the adverse effects of high tax rates on entrepreneurship. Tax policies that provide incentives for startup investment, research and development (R&D) activities, and small business development can stimulate entrepreneurial activity by offsetting the tax burden and enhancing the returns on investment. By offering tax credits for innovation, job creation, and export-oriented activities, policymakers can incentivize entrepreneurs to innovate, expand their businesses, and contribute to economic growth.

Furthermore, the role of institutional factors and the regulatory environment cannot be overstated in mediating the impact of taxes on entrepreneurship. Aidis et al. (2020) highlight the significance of favorable business climates, streamlined regulatory processes, and strong property rights protection in fostering entrepreneurial activity. Countries with effective governance, rule of law, and transparent tax administration tend to create an enabling environment for startups to thrive and innovate, regardless of the prevailing tax rates. A supportive institutional framework reduces barriers to entry, enhances business confidence, and encourages entrepreneurial risk-taking. Additionally, tax policies can influence entrepreneurial behavior through their interaction with broader economic and social factors. For instance, tax incentives targeting specific industries or regions can spur regional development and alleviate disparities in economic opportunities (Hines, 2010). Similarly, tax deductions for education and training expenses can enhance human capital development and skill acquisition among aspiring entrepreneurs, thereby promoting long-term business success (Lerner, 2019). By aligning tax policies with broader economic development goals, policymakers can leverage taxation as a tool for fostering inclusive growth and reducing socio-economic inequalities.

Moreover, the impact of taxes on entrepreneurship varies across different stages of the entrepreneurial lifecycle and sectors of the economy. Early-stage startups may be particularly sensitive to tax incentives for R&D investment and access to venture capital, whereas established firms may prioritize tax credits for innovation and international expansion (Kuratko & Audretsch, 2013). Therefore, policymakers should tailor tax incentives and exemptions to address the specific needs and challenges faced by entrepreneurs at different stages of business development. From a global perspective, cross-country comparisons offer valuable insights into the effectiveness of different tax policies in promoting entrepreneurship. Studies have shown that countries with lower tax rates, combined with supportive institutional frameworks, tend to exhibit higher rates of entrepreneurial activity and innovation (Aidis et al., 2020; Djankov et al., 2010). However, the relationship between taxes and entrepreneurship is complex and context-dependent, requiring careful consideration of country-specific factors, cultural norms, and socio-economic conditions.

The discussion of these results underscores the need for policymakers to adopt a holistic approach to tax policy design that balances revenue objectives with entrepreneurship promotion. By considering the differential effects of tax incentives, simplifying tax compliance procedures, and improving the overall business environment, governments can create a conducive ecosystem for new business creation and economic growth. Moreover, fostering collaboration between tax authorities, business incubators, and entrepreneurial support organizations can facilitate knowledge sharing, capacity building, and access to financial resources for aspiring entrepreneurs. Moving forward, future research should delve deeper into specific aspects of tax policy and entrepreneurial behavior to inform evidence-based policy interventions. Longitudinal studies tracking the impact of tax reforms on startup formation, survival rates, and innovation outcomes can provide valuable insights into the effectiveness of different policy measures. Moreover, comparative analyses across countries and regions can elucidate the role of institutional context in shaping the tax-entrepreneurship nexus. Additionally, interdisciplinary research integrating insights from economics, psychology, and sociology can offer a more comprehensive understanding of the underlying mechanisms driving entrepreneurial decisions in response to tax incentives and disincentives. The synthesis of literature on taxes and entrepreneurship highlights the complex interplay between tax policies, institutional factors, and entrepreneurial behavior. By adopting a nuanced approach to tax policy design and fostering an enabling environment for startups, policymakers can unlock the potential of entrepreneurship as a driver of economic growth and innovation.

5. CONCLUSION

The exploration of the relationship between taxes and entrepreneurship reveals a nuanced landscape shaped by various contextual factors, policy interventions, and institutional frameworks. While tax rates play a significant role in influencing entrepreneurial behavior and new business creation, the broader spectrum of tax policies, incentives, and regulatory environments must be considered to fully understand their impact. This comprehensive analysis offers valuable insights into both theoretical implications and managerial considerations, underscoring the complex interplay between taxation and entrepreneurship. From a theoretical perspective, the findings highlight the importance of adopting a multidimensional approach to understanding the tax-entrepreneurship nexus. While traditional economic theories emphasize the role of tax rates in shaping incentives for entrepreneurial activity, insights from behavioral economics, sociology, and public policy analysis enrich our understanding by considering the broader socio-economic context. Behavioral biases, social norms, and institutional quality interact with tax policies to influence entrepreneurial decisions, underscoring the need for a holistic framework that integrates diverse perspectives.

Moreover, the literature underscores the significance of targeted tax incentives and supportive institutional environments in promoting entrepreneurship. Tax policies that offer incentives for startup investment, R&D activities, and small business development can mitigate the adverse effects of high tax rates and foster new business creation. Additionally, countries with favorable business climates, streamlined regulatory processes, and strong property rights protection tend to exhibit higher rates of entrepreneurial activity, irrespective of tax rates. Effective governance, rule of law, and transparent tax

administration contribute to creating an enabling environment for startups to thrive and innovate. From a managerial standpoint, the implications of these findings are profound for policymakers, business leaders, and entrepreneurial support organizations. Policymakers are urged to design tax policies that strike a balance between revenue objectives and entrepreneurship promotion. By offering targeted tax incentives, simplifying regulatory procedures, and enhancing institutional quality, policymakers can create an environment conducive to entrepreneurial activity and economic growth. Moreover, business leaders can leverage tax incentives for innovation, job creation, and export-oriented activities to drive business expansion and competitiveness. Entrepreneurial support organizations play a crucial role in providing guidance, resources, and mentorship to aspiring entrepreneurs, thereby facilitating the transition from startup to sustainable business ventures. The synthesis of literature on taxes and entrepreneurship underscores the importance of adopting a multifaceted approach that considers the interplay of tax policies, institutional frameworks, and individual perceptions. By integrating insights from various disciplinary perspectives and acknowledging the complexities of the entrepreneurial landscape, policymakers and business leaders can foster an environment that nurtures innovation, fosters economic growth, and enhances overall societal well-being. Moving forward, continued research and evidence-based policymaking are essential to unlocking the full potential of entrepreneurship as a driver of prosperity and progress.

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